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SUBJECT: DEPUTY USTR BHATIA'S EETINGS IN MANILA:
FINANCE SECRETARY TEVES, MARC 16

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SUMMARY

11. (BU) In a March 16 meeting with Deputy USTR Ambassador Karan Bhatia, Finance Secretary Gary Teves highlighted fiscal reform measures such as the expanded value added tax and increased tax revenue collection. Teves, noting that the Philippines's GDP growth rate is lower than other countries in the region, said that the 2.7% deficit-to-GDP ratio must be reduced in order to encourage rapid economic growth. While tax collection results were below target in January 2006, February collections exceeded expectations. Teves reaffirmed the GRP's intent to submit its Millennium Challenge Account Threshold proposal, emphasizing good governance and anti-corruption, by its self-imposed April 1 deadline. On Clark tax incentives, Teves described interim solutions to be implemented until the issue can be permanently resolved by legislation. Teves also said he is working to resolve the issue of back taxes on foreign currency deposits (reftel). End Summary.

PARTICIPANTS

12. (SBU) -- USG: Deputy USTR Ambassador Karan Bhatia, Assistant USTR Barbara Weisel, USTR Special Assistant Bob Dehaan, Charge d'Affaires Paul Jones, Economic Counselor Robert Ludan, and Economic Officer Michelle Hoyt.
-- GRP: Finance Secretary Gary Teves, Under Secretary Gaudencio Mendoza, and Under Secretary Gil Beltran.

REVENUE COLLECTION

13. (SBU) Ambassador Bhatia congratulated Secretary Teves on recent fiscal reform measures, including expanded value-added tax (EVAT), and encouraged him to find the right balance between deficit reduction and infrastructure investment. Teves said that the success of the EVAT has been supported by external factors including the active role of the media in communicating developments to the public. He said that if the RP can "get over the hurdle" of 2006, there will be increased momentum for continued progress in revenue administration in the coming years. He cited the need for debt reduction and referenced the high ratio of deficit-to-GDP, which was 2.7% at the end of 2005. Teves acknowledged that the RP, with a 5.1% GDP growth rate in 2005, is behind other countries in the region. He said that if the debt level decreases, the RP could grow at a faster rate than it has in the past. Teves said that the RP needs foreign investment in order to catch up with regional leaders such as China, India, and Vietnam.

14. (SBU) On tax collection, Teves reported that the Bureau of Internal Revenue (BIR) was 600 million pesos short of its collection target for January 2006.

However, preliminary reports show over one 1 billion pesos collected beyond the target in February 2006, which more than makes up for the slow start.

MILLENNIUM CHALLENGE ACCOUNT

15. (SBU) Bhatia said that he is delighted the RP has been selected as a Threshold Country and urged the GRP to move forward quickly to submit its proposal. Teves said that GRP wanted to meet the self-imposed April 1 deadline and is anxious to receive feedback on its plan. He noted that the MCC proposal would emphasize performance goals for good governance initiatives such as Run After Tax Evaders (RATE), Run After the Smugglers (RATS), and lifestyle checks. Teves cited the need for experts to provide technical assistance on the RATE and RATS

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